

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Beecher Metropolitan District	County Genesee
Audit Date 6/30/05	Opinion Date 10/28/05	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.		✓	
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Plante & Moran, PLLC.			
Street Address 111 East Court Street	City Flint	State MI	ZIP 48306
Accountant Signature 		Date 12-28-05	

Financial Report
Beecher Metropolitan District
Flint, Michigan
June 30, 2005

**Beecher Metropolitan District
Financial Statements
For the Fiscal Year Ended June 30, 2005**

Table of Contents

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Statement of Net Assets	4
Statements of Revenues, Expenses and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to the Basic Financial Statements	7-13

Independent Auditors' Report

District Commission
Beecher Metropolitan District
1057 West Louis Avenue
Flint, Michigan 48505

We have audited the accompanying basic financial statements of the Beecher Metropolitan District (District) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The basic financial statements of Beecher Metropolitan District as of and for the year ended June 30, 2004, were audited by other auditors whose reported dated October 28, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Beecher Metropolitan District as of June 30, 2005 and the respective changes in financial position and cash flows there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express not opinion on it.

PLANTE & MORAN, PLLC

October 25, 2005

Management's Discussion and Analysis

Beecher Metropolitan District
Management's Discussion and Analysis
June 30, 2005

As management of the Beecher Metropolitan District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District.

The basic financial statements for the District are comprised of the statement of net assets, statement of activities, statement of cash flows, and notes to the financial statements.

The proprietary fund statement of net assets presents the information of the water and sewer fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the business-type fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the business-type fund financial statements.

Financial Highlights

The financial analysis focuses on the proprietary fund statement of net asset and the statement of activities. The total assets of the District are \$7,199,156 of which \$1,623,052 represents cash, cash equivalents, and investments, \$404,409 represent receivables, and \$5,083,729 represent capital assets net of accumulated depreciation. The current liabilities are \$354,088 leaving current net assets of \$6,845,068.

Net assets decreased \$739,743 for the District as a result of \$2,708,231 in operating expenses which are offset by program revenues of \$1,578,635 and general revenues of \$389,853. Charges for services of \$1,488,777 were generated from metered water sales and sewer service fees.

Net assets invested in capital assets amount to \$5,083,729 leaving unrestricted net assets of \$1,747,903.

Capital assets, net of accumulated depreciation, totaled \$5,083,729 at June 30, 2005. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$4,766,303.

Beecher Metropolitan District's
Net Assets

	<u>2005</u>	<u>2004</u>
Current and other assets	\$2,115,427	\$2,721,810
Capital assets	5,083,729	5,264,924
Total assets	<u>7,199,156</u>	<u>7,986,734</u>
Current liabilities	<u>354,088</u>	<u>401,923</u>
Net assets:		
Invested in capital assets	5,083,729	5,264,924
Restricted	17,998	15,265
Unrestricted	<u>1,743,341</u>	<u>2,304,622</u>
Total net assets	<u>\$6,845,068</u>	<u>\$7,584,811</u>

**Beecher Metropolitan District's
Capital Assets - Net of Depreciation**

Business-type Activities

	<u>2005</u>	<u>2004</u>
Land	\$ 13,599	\$ 13,599
Building and improvements	13,138	14,906
Machinery and equipment	279,456	333,568
Improvement in water system	2,177,805	2,222,009
Improvement in sewer system	2,599,731	2,680,842
Total	<u>\$5,083,729</u>	<u>\$5,264,924</u>

Net assets may serve over time as a useful indicator of financial position. In the case of the Beecher Metropolitan District, assets exceeded liabilities by \$6,845,068.

By far the largest portion of the District's net assets (74%) reflects its investment in capital assets.

Current and other assets decreased \$606,251 from prior year due to excess expenses over revenues. Capital assets decreased \$181,195 due to annual depreciation. Liabilities decreased \$47,835 due to decrease in accounts payable for sewer treatment.

**Beecher Metropolitan District's
Changes in Net Assets**

Business-type Activities

	<u>2005</u>	<u>2004</u>
Revenues		
Operating revenues:		
Charges for services	\$1,488,777	\$1,535,697
Other income	89,858	82,229
Non-operating revenues:		
Tax revenues	301,744	314,228
Rental and interest income	88,159	86,616
Total revenues	<u>1,968,538</u>	<u>2,018,770</u>
Expenses:		
Operating	<u>2,708,281</u>	<u>2,795,921</u>
Decrease in net assets	(739,743)	(777,151)
Net assets - beginning of the year	<u>7,584,811</u>	<u>8,361,962</u>
Net assets - end of the year	<u>\$6,845,068</u>	<u>\$7,584,811</u>

Charges for services decreased \$46,920 and mainly consists of metered water sales and sewer service fees. Water sales decreased \$13,729 and sewer service fees decreased \$33,191. Tax revenue decreased \$12,484.

The District has experienced a significant decrease in net assets in 2005 and 2004 due to a costly sewer tile initiative and a billing structure that does not fully recover costs of providing services. The sewer tile initiative was a major sump pump installation project throughout the District. The initiative has come to a close in fiscal year 2005 and the related expenses should decrease significantly in the future. The billing structure was addressed in June 2005 when the District hired a consulting firm to perform a rate study. It is expected that the District will increase rates in fiscal year 2006.

Basic Financial Statements

**Beecher Metropolitan District
Statements of Net Assets
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$ 389,016	\$ 1,981,760
Investments	1,000,000	-
Receivables:		
Accounts	240,604	254,404
Unbilled accounts	88,298	88,298
Interest	13,565	-
Delinquent property taxes receivable	61,942	92,536
Inventories	87,966	82,132
Restricted assets:		
Cash and cash equivalents	234,036	222,680
Total current assets	<u>2,115,427</u>	<u>2,721,810</u>
Capital assets - net of accumulated depreciation	<u>5,083,729</u>	<u>5,264,924</u>
Total assets	<u>7,199,156</u>	<u>7,986,734</u>
Liabilities		
Accounts payable	18,960	-
Accrued liabilities	116	-
Due to other governments	117,984	193,518
Payable from restricted assets:		
Customer deposits	217,028	208,405
Total current liabilities	<u>354,088</u>	<u>401,923</u>
Net Assets		
Invested in capital assets, net of related debt	5,083,729	5,264,924
Restricted for employee benefits	17,998	15,265
Unrestricted	<u>1,743,341</u>	<u>2,304,622</u>
Total net assets	<u>\$ 6,845,068</u>	<u>\$ 7,584,811</u>

The notes to financial statements are an integral part of this statement.

Beecher Metropolitan District
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	Totals	
	2005	2004
Operating revenues:		
Charges for services:		
Metered water sales	\$ 455,876	\$ 469,605
Sewer service fees	1,032,901	1,066,092
Parts and service	34,137	24,434
Penalties	54,477	56,548
Other income	1,244	1,247
Total operating revenues	1,578,635	1,617,926
Operating expenses:		
Administrative and engineering	944,690	918,411
Accounting and collections	11,124	10,379
Plant maintenance - sewer	118,624	114,386
Plant maintenance - mains, tower & connections	186,115	181,167
Machinery and equipment maintenance	5,435	11,153
Water pumping - wells, distribution	109,931	104,421
Sanitary sewer line maintenance	28,469	23,174
Sanitary sewer weep tile project	173,247	255,823
Sewage pumping	65,159	63,679
Sewage treatment	855,349	880,254
Tools and working equipment expense	1,313	1,464
Automobile and truck expense	23,445	23,604
Depreciation	185,330	207,192
Total operating expenses	2,708,231	2,795,107
Operating loss	(1,129,596)	(1,177,181)
Nonoperating revenues (expenses):		
Tax revenues	301,744	314,228
Rental income	59,820	55,650
Interest income	28,339	30,966
Loss on sale of assets	(50)	(814)
Total nonoperating revenues	389,853	400,030
Change in net assets	(739,743)	(777,151)
Net assets - beginning of year	7,584,811	8,361,962
Net assets - end of year	\$ 6,845,068	\$ 7,584,811

The notes to financial statements are an integral part of this statement.

**Beecher Metropolitan District
Statements of Cash Flows
Year Ends June 30, 2005 and 2004**

	Totals	
	2005	2004
Cash flows from operating activities:		
Cash received from customers	\$ 1,592,435	\$ 1,639,014
Cash payments to suppliers	(1,795,250)	(1,733,236)
Cash payments to employees	(781,320)	(783,802)
Net cash used in operating activities	(984,135)	(878,024)
Cash flows from capital and related financing activities:		
Purchases of fixed assets	(8,105)	(155,189)
Proceeds from sales of capital assets	3,920	-
Net cash used in capital and related financing activities	(4,185)	(155,189)
Cash flows from noncapital financing activities:		
Receipts from rentals	59,820	55,650
Property tax collections	332,338	323,319
Net cash provided by noncapital financing activities	392,158	378,969
Cash flows from investing activities:		
Interest earned	14,774	30,966
Purchases of investments	(1,000,000)	-
Net cash provided by (used in) investing activities	(985,226)	30,966
Net decrease in cash and cash equivalents	(1,581,388)	(623,278)
Cash and cash equivalents - beginning of year	2,204,440	2,827,718
Cash and cash equivalents - end of year (includes restricted cash and cash equivalents of \$234,036)	\$ 623,052	\$ 2,204,440
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (1,129,596)	\$ (1,177,181)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	185,330	207,192
Changes in operating assets and liabilities:		
Accounts receivable	13,800	21,088
Inventories	(5,834)	10,805
Accounts payable	18,960	(3,404)
Accrued liabilities	116	(6,282)
Due to other governments	(75,534)	65,555
Customer deposits	8,623	4,203
Net cash used in operating activities	\$ (984,135)	\$ (878,024)

The notes to financial statements are an integral part of this statement.

Notes to Basic Financial Statements

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

I. Summary of significant accounting policies

The accounting policies of Beecher Metropolitan District, (the "District") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Beecher Metropolitan District, Michigan:

A. Reporting entity

Beecher Metropolitan District, Michigan is governed by an elected five-member board. The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. The District had no component units at June 30, 2005.

B. Basis of accounting

The accrual basis of accounting is used by the District. The District follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The District has elected not to follow private sector standards issued after November 30, 1989.

C. Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

D. Operating revenue

Amounts reported as operating revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as non-operating revenue rather than as operating revenue. Likewise, non-operating revenue includes all taxes.

E. Property tax revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on February 28 of the following year, at which time penalties and interest are assessed.

The City's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are available for the financing of operations.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

I. Summary of significant accounting policies – (continued)

E. Property tax revenue – (continued)

The Metropolitan District is permitted by charter to levy up to \$5.00 per \$1,000 (5 mills) of Taxable Value for general government services, upon real and personal property in their district in the Townships of Genesee and Mt. Morris. For the year ended June 30, 2005, the Beecher Metropolitan District levied 3.5614 mills. These amounts are recognized in the respective water and sewer fund financial statements as tax revenue.

	<u>Taxable Valuation</u>
Genesee Township	\$28,334,090
Mt. Morris Township	<u>62,762,128</u>
Total	<u>\$91,096,218</u>

F. Assets, liabilities, and net assets or equity

1. Bank deposits and investments

Cash and cash equivalents include cash on hand, demand deposits, and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

2. Receivables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. All amounts are considered collectible at year end.

3. Inventories

Inventories consist of expendable supplies held for consumption and are valued at the lower of cost or market with cost determined on a first-in, first-out basis. The cost value is recorded as an asset until used, at which time it is recorded as an expense.

4. Capital assets

Capital assets consist of property, plant, equipment, and sewer and water line infrastructure assets. Capital assets are defined by the District as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant, equipment and sewer and water line infrastructure assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-50
Machinery and equipment	5-100
Water system	10-100
Sewer system	25-100

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

I. Summary of significant accounting policies – (continued)

F. Assets, liabilities, and net assets or equity – (continued):

5. Restricted assets

Restricted assets in the Water and Sewer Fund consists of cash and equivalents set aside for customer deposits and employee benefits.

6. Compensated absences

Accumulated unpaid vacation and sick pay are not accrued by Beecher Metropolitan District. Vacation time must be taken and is not allowed to accumulate. Sick and personal time is allowed for eight days per year and is not allowed to accrue.

7. Net assets – Equity displayed in three components as follows:

Invested in capital assets, net of related debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvements of those assets. The District has no debt related to capital assets.

Restricted – This consists of net assets that are legally restricted by outside parties, or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the District's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

8. Reclassifications

Certain prior year financial information has been reclassified to agree with the current year presentation.

II. Detail notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

II. Detail notes on all funds – (continued)

A. Deposits and investments – (continued)

The Authority has designated Bank One for the deposit of its funds. The District has adopted an investment policy as of June 30, 2005. The Authority's deposits are in accordance with statutory authority.

The Authority's cash and investments are subject to two different types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. At year end, the Authority had \$1,335,356 of bank deposits (certificates of deposit and savings) that were uninsured and uncollateralized. The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the District evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

B. Capital assets

Capital asset activity for the District was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 13,599	\$ -	\$ -	\$ 13,599
Total capital assets, not being depreciated	13,599	-	-	13,599
Capital assets, being depreciated:				
Buildings and improvements	225,412	-	-	225,412
Machinery and equipment	1,464,720	7,355	32,969	1,439,106
Water system	3,451,242	750	-	3,451,992
Sewer system	4,719,923	-	-	4,719,923
Total capital assets being depreciated	9,861,297	8,105	32,969	9,836,433
Less accumulated depreciation for:				
Buildings and improvements	210,506	1,768	-	212,274
Machinery and equipment	1,131,152	57,497	28,999	1,159,650
Water system	1,229,233	44,954	-	1,274,187
Sewer system	2,039,081	81,111	-	2,120,192
Total accumulated depreciation	4,609,972	185,330	28,999	4,766,303
Total capital assets, being depreciated, net	5,251,325	(177,225)	(3,970)	5,070,130
Business-type activities capital assets, net	\$5,264,924	\$(177,225)	\$ (3,970)	\$5,083,729

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

II. Detail notes on all funds – (continued)

B. Capital assets – (continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Business-type activities:
Water and sewer

\$185,330

III. Other information

A. Retirement plans

1. Defined benefit pension plan description

The District participates in the Michigan Municipal Employees Retirement System (MERS) which is an agent multiple-employer public employee retirement system (PERS) that is administered by the State of Michigan. The MERS was organized pursuant to Act No. 427, Public Acts of 1984, as amended, and the Constitution of the State of Michigan. The District has no fiduciary responsibility for the plan. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system as a whole.

Members in the plan at December 31, 2004, the date of the latest actuarial valuation, is comprised of 13 active members, 1 inactive member, and 9 retirees and beneficiaries.

The plan provides for vesting of benefits after 6 years of service for general employees and 10 years of service for administration employees. Participants may elect normal retirement at age 60 with 6 or more years of service for general employees and at age 60 with 10 or more years of services for administration employees. The plan also provides for general employees to retire after 25 years of service and administration employees to retire after 21 years of service.

Election of early retirement is subject to reduction of benefits as outlined below. Generally, as provided by contractual agreement, participants are entitled to a retirement benefit equal to the credited service at the time of membership termination multiplied by the sum of 2.5% times the final average compensation (F.A.C.). The retirement allowance is reduced 1/2% of 1% for each complete month that retirement precedes the age at which full normal retirement benefits are available. The District and the employees contribute the necessary amounts to fund the actuarial determined benefits. The District makes employer contributions in accordance with funding requirements determined by MERS' actuary. Beginning with payroll periods after January 1, 1996, the District began making the employee contributions in accordance with employment contract provisions. Employer contributions were made in the amount of \$106,748 for the year ended June 30, 2005.

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

III. Other information – (continued)

A. Retirement plans – (continued)

1. Defined benefit pension plan description – (continued)

Actuarial assumptions

The significant actuarial assumptions used to compute the actuarial accrued liabilities are as follows:

Valuation date	December 31, 2004
Actuarial cost method	Entry age normal cost method
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Investment rate of return	8.0%
Projected salary increases	4.5%
Includes inflation at	4.5%
Cost of living adjustments (COLA)	up to 2.5%

Annual pension cost

The District's Annual Required Contribution (ARC) and Annual Pension Costs (APC) for the year ended June 30, 2005 was \$106,748. There was no accumulated Net Pension Obligation (NPO) at June 30, 2005. The Annual Pension Cost (APC), percentage of APC contributed, and Net Pension Obligation (NPO) for the years ended June 30, 2005, 2004, and 2003 are summarized as follows:

<u>Plan Year End</u>	<u>Annual Pension Cost (APC)</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$ 67,817	100.0%	\$ -
6/30/04	82,334	100.0	-
6/30/05	106,748	100.0	-

**Pension Plan
Schedule of Funding Progress**

<u>Plan Year End</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability Entry Age (AAL) (b)</u>	<u>Unfunded (Over funded) AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as % of Covered Payroll (b-a)/c</u>
6/30/03	12/31/02	\$3,118,578	\$3,694,605	\$576,027	84%	\$673,109	86%
6/30/04	12/31/03	3,361,003	4,023,914	662,911	84	730,818	91
6/30/05	12/31/04	3,568,523	4,423,991	855,468	81	692,766	123

**Beecher Metropolitan District
Notes to Financial Statements
For the Year Ended June 30, 2005**

III. Other information – (continued)

A. Retirement plans – (continued)

2. Deferred compensation plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all District employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The law was changed to allow trusts to be created for the plan assets, thereby, insulating the assets from the unit of government's general creditors. The District's plan administrator, ICMA created the trust and placed the assets of the Plan within the trust. As a result, the Plan assets are not shown on the District's financial statements to reflect that the District no longer has any fiduciary or administrative responsibility for the Plan.

3. Defined contribution plan

The District has a defined contribution plan which covers General Division employees hired after January 1, 2004 through the Municipal Employees' Retirement System of Michigan (MERS). The District will contribute 10% and participants will contribute 2% of annual earnings. Payroll costs of all employees and plan participants amounted to \$767,813 and \$50,963, respectively. During the year, the District contributed \$5,839, however, the fiscal year 2005 contribution was paid after year-end. Participants made required contributions of \$1,168.

B. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for medical benefits provided to employees and participates in the Michigan Municipal League (MMC) risk pool for claims relating to property loss, torts, errors, and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

December 28, 2005

To the Members of the Commission
Beecher Metropolitan District
1057 West Louis Avenue
Flint, Michigan 48505

We have audited the basic financial statements of the Beecher Metropolitan District for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Beecher Metropolitan District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Beecher Metropolitan District are described in Note 1 to the general purpose financial statements. We noted no transactions entered into by the Beecher Metropolitan District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are sensitive because of their

significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the lives of fixed assets used in the Sewer and Water Enterprise Fund. We evaluated the lives used and feel that they are reasonable in relation to the proprietary fund-type financial statements taken as a whole.
- Management's estimates of the actuarial assumptions used to compute the actuarial accrued liabilities for the Commission's defined benefit pension plan administered by Municipal Employees Retirement System. Independent actuaries of the pension trust prepare these estimates. We evaluated the specific assumptions used and feel that they are reasonable in relation to the overall financial statement presentation.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Beecher Metropolitan District's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principal to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management (primarily the Commission's Director) each year prior to retention as the Beecher Metropolitan District's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

No significant difficulties were encountered in performing the audit.

Internal Control

In planning and performing our audit of the financial statements of Beecher Metropolitan District, for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design of operation of internal control that, in our judgment could adversely affect Beecher Metropolitan District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

Lack of segregation of duties

The office manager receives the bank statements, prepares the bank reconciliations, prepares journal entries, and is a check signer, where as only one signer is required. We recommend that the Administrator receive the bank statements unopened and review the checks for vendors and signature propriety. We also recommend the Administrator review the bank reconciliations for unusual items.

Comments and Recommendations

During the audit, we noted other opportunities for improvements. We offer the following for suggestions for your consideration. These comments do not affect the opinion issued on the financial statements dated October 25, 2005.

1. Capitalization Policy

The Commission does not have a formal capitalization policy. We recommend the Commission adopt a policy of capitalizing items with an individual value of greater than \$1,000 with a useful life of two or more years.

2. Credit card Policy

The Commission does not have a formal credit card policy. We recommend the Commission adopt a credit card policy.

3. Budget

We believe that the Commission should prepare an annual budget and compare budget to actual on monthly basis. This would help with monitoring revenues and expenses.

4. Operating Deficits

The last two fiscal years have resulted in a total net loss of \$1.5 million, with non cash expenses of depreciation totaling \$393,000. Overall cash and investment holdings have decreased \$1.2 million over those same two years. The expenses related to the weep tile project have been a major reason for the losses. However, if those project expenses did not exist in 2004 and 2005, the net loss still would have been over \$1,000,000 and overall cash losses over 2004 and 2005 still would have been approximately \$786,000.

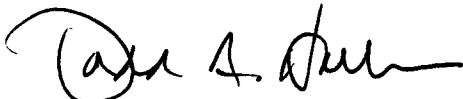
Water and sewer revenues and taxes are not keeping pace with operating costs and the District continues to fund operations with cash on hand. In addition, the billing structure is not providing sufficient cash flows to set aside money for capital replacement needs.

The Commission took our suggestion last year and had a rate study performed. The Commission is revising the rates as of January 2006. Even with the rate study and adjustments to the rates we suggest the Commission continue to review the if operating revenues cover operating expenses, given the cash flow needs of the agency, limits on the ability to levy additional taxes, and the continuing economic decline in the overall service area of the District. The district should also monitor the actual to the projected per the study.

The information is intended solely for the use of the Commission and management of the Beecher Metropolitan District and should not be used for any other purpose. We appreciate the assistance provided by the staff of the District in completing the audit and the opportunity to provide services to the District. We are available to assist the District in implementing any of the suggestions noted above.

Sincerely,

Plante & Moran, PLLC



Tadd A. Harburn, CPA